

From: Ann Barnes, Kent Police and Crime Commissioner  
To: Kent and Medway Police and Crime Panel  
Subject: Annual Report 2012/2013 and Accounts 2012/2013

**Summary: This report introduces the Annual report from the Police and Crime Commissioner and the accounts for 2012/13.**

### **Annual Report 2012/2013**

1. Attached at appendix A is the Annual Report for 2012/13 produced by the Police and Crime Commissioner. It meets the legislative requirement for such a statement. For understandable reasons, the statement focuses on the period from 22<sup>nd</sup> November 2012 to 31<sup>st</sup> March 2013. This report can also be accessed at [https://www.kent-pcc.gov.uk/annual\\_report.html](https://www.kent-pcc.gov.uk/annual_report.html)

### **Accounts 2012/2013**

2. The Annual Report on-line provides links to the annual accounts. Those accounts run to over 100 pages in the normal way and can be found on <https://www.kent-pcc.gov.uk/finance.html>. For the purpose of this report, attached at Appendix B, is the Foreword to the accounts. Overall, the accounts show an underspend for 2012/13 and these have been applied to bolster various reserves.
3. New External Auditors, Ernst and Young, were appointed to this audit in October 2013, replacing the Audit Commission's own external audit team. Ernst and Young have delivered an unqualified opinion for 2012/13.

### **Appendix A**

PDF Copy of the Annual Report 2012/13

## **Appendix B**

### **Foreword to the Accounts 2012 – 13**

The major contextual change for the accounts this year concerns the introduction of Police and Crime Commissioners in England and Wales. This was brought about by the Police Reform and Social Responsibility Act 2011 (the Act) which replaced Police Authorities with elected Police and Crime Commissioners and created two corporations sole, in the Office of the Commissioner and the corporation sole in the Chief Constable. In line with the Act and the related Policing Protocol, The Police and Crime Commissioner is ultimately responsible for the combined group account; both income and expenditure.

Accordingly, this Statement of Accounts records the expenditure and income of the Group for the financial year 2012/13 for the combined accounts for the Police and Crime Commissioner for Kent and the Chief Constable for Kent and its financial position at the 31 March 2013. The accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting' and the 'Service Reporting Code of Practice' (SeRCOP) published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The accounts have also been produced in accordance with International Financial Reporting Standards (IFRS).

The former Kent Police Authority was dissolved on 21 November 2012 and the newly created corporation sole for the Police and Crime Commissioner for Kent was created on 22<sup>nd</sup> November. All assets, liabilities, staff employment contracts, property, plant and equipment transferred to the corporation sole which is the Police and Crime Commissioner for Kent (PCC for Kent). All this happened seamlessly under the regulation and mirrored the pre-existing responsibilities of Police Authorities. (This has been referred to as 'stage 1')

The Act permits the corporations sole to be accounted for using merger accounting rules according to FRS6 Acquisitions and Mergers. This permits the accounts to be presented as if the services or functions of the bodies had always taken place in those entities.

The Act requires that each corporation sole has its own Statement of Accounts for the financial year and that these be brought together in a group statement of accounts also. These accounts represent those of the group for Kent Police which includes the corporations sole of the Chief Constable for Kent and the Police and Crime Commissioner for Kent. While all assets, liabilities, employment contract, remain in the name of The Commissioner, the corporation sole account representing the Chief Constable's operations is being treated as dormant account for accounting purposes

The Accounts begin with a statement of the responsibilities of the PCC for Kent and her Chief Finance Officer in relation to the management and reporting arrangements for the PCC for Kent's resources (page 6). The PCC for Kent's 'Annual Governance Statement', which broadens the coverage of the previous Statement of Internal Control to embrace all of the organisation's key governance processes and safeguards, is shown starting on page 7. The Auditor's Report appears at page 11 and the Summary of Accounting Policies as note 1 on page 21.

The main financial statements comprise:

- The Comprehensive Income and Expenditure Statement - This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. This distinction is very important in interpreting the overall position. Authorities raise

taxation to cover expenditure classified in accordance with regulations; this will be very different to the accounting cost.

- The Movement in Reserves Statement - shows the movement in the year of the different reserves held by the Police and Crime Commissioner for Kent, analysed into 'useable' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or deficit on the Provision of Services line shows the true economic cost of providing the PCC's services for Kent, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The Net Increase / Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Police and Crime Commissioner for Kent.
- The Balance Sheet - shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Police and Crime Commissioner for Kent. The net assets of the Police and Crime Commissioner for Kent (assets less liabilities) are matched by the reserves held by the Police and Crime Commissioner for Kent. Reserves are reported in two categories: The first category of reserves are usable reserves, i.e. those reserves that the Police and Crime Commissioner for Kent may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is that which the Police and Crime Commissioner for Kent is not able to use to provide services. This category includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.
- The Cash flow Statement - shows the changes in cash and cash equivalents of the Police and Crime Commissioner for Kent during the reporting period. The statement shows how the Police and Crime Commissioner for Kent generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which operations of the Police and Crime Commissioner for Kent are funded by way of taxation and grant income or from the recipients of the services provided by the Police and Crime Commissioner for Kent. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Police and Crime Commissioner for Kent's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowings) to the Police and Crime Commissioner for Kent.

In addition to these primary statements there are a number of notes which help explain the figures, including a set of accounting policies showing the approach the Police and Crime Commissioner for Kent has taken in compiling the accounts.

## **General Context**

As part of the Government's deficit reduction programme, and like the rest of the public sector, Kent Police has had to cope with the grant reductions set out in the Government 'Comprehensive Spending Review' for the four years 2011/12 to 2014/15. This is referred to as CSR1 and in broad terms amounts to some 20% real reductions in grant funding for police forces over that period. In a local context government grant in one form or another contributes nearly 75% of Kent Police's funding. Against a back-drop of normal inflation and increasing demand for visible, neighbourhood policing, coupled with grant cuts from CSR1, required Kent Police to find £50m of on-going savings over the period. The Chief Constable and the previous Police Authority recognised the challenge and put in place a robust savings plan based around a new operational policing model for Kent, new ways of working and better use of technology. Inevitably, however, this has required the loss of some 500 police officers and 700 police staff. The Police and Crime Commissioner has accepted this plan in the main which is on course to deliver the target cost base saving of £50m and a new operating model by the end of 2013/14, i.e. a year early. However, in her first budget for 2013/14 the Commissioner decided to raise the police precept element of the council tax by 2% to provide for 80 more front line police personnel.

The fiscal challenge does not end with CSR1. The government has announced a further round of grant cuts starting in 2015/16 as part of a new comprehensive spending review round. This is referred to as CSR2. The CSR2 announcement has only set out additional grant cuts for 2015/16 of 5%. The Commissioner's current Police and Crime Plan assumed CSR2 required additional grant cuts of 5% in each of 2015/16 and 2016/17. The Current announcement remains in line with those previous assumptions. The net result, on best current information is that the Force will need to plan for some £20m of additional savings from 2015/16 as a result of CSR2.

The Commissioner and the Chief Constable understand the challenges ahead. Building on the effective and timely response to CSR1 leaves Kent Police well placed to deliver further savings as a result of CSR2. Inevitably, however, continuing grant cuts will impact on staff numbers and front line service delivery. The Commissioner is a strong advocate of minimising the effect grant cuts falling on the police service, locally or nationally, but at the same time she will be working hard with the Chief Constable to ensure that visible, local and cost effective policing remain at the core of how Kent Police respond to the further challenges arising from CSR2.

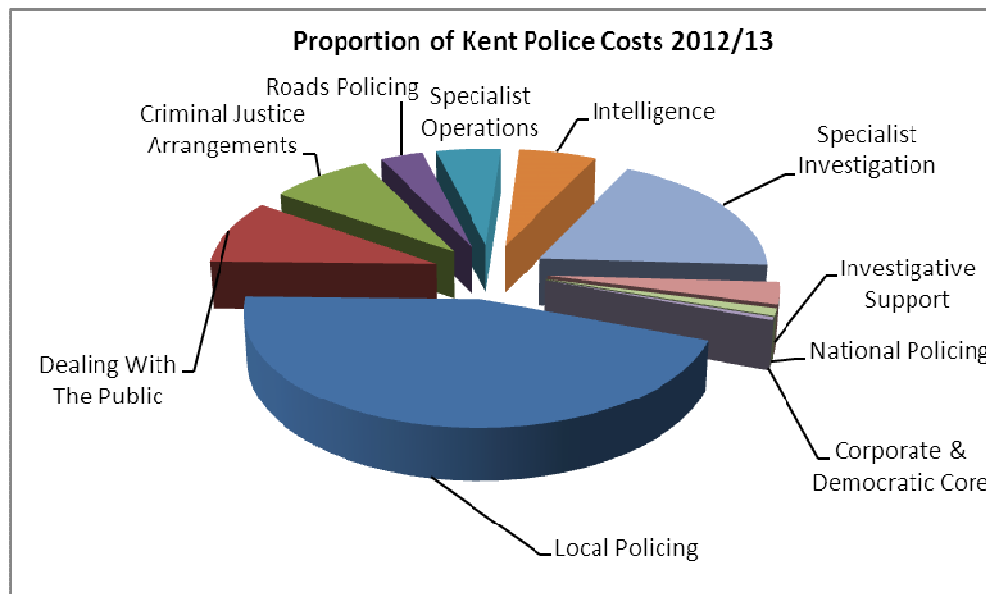
## **The Comprehensive Income and Expenditure Statement**

International Financial Reporting Standards require that the total future liabilities for the cost of pension payments to past and present employees are fully reflected in the Balance Sheet, and that their change during the year is reflected in the Comprehensive Income and Expenditure Statement. Since the national Police Officers' pension scheme is technically not backed by any local investments, the Police and Crime Commissioner for Kent's future pension liability of £2,433m far exceeds its total assets. Including a smaller deficit on the mainly funded Local Government Scheme for Police Staff, total pension liabilities are £2,534m. Set against £153m of Accounting reserves, £23m Capital Reserves and £30m of Usable Reserves, the Balance Sheet Accounting Deficit is £2,328m.

Excluding notional costs shown in the accounts to comply with international standards, primarily for pensions and depreciation, the Kent Police revenue budget for 2012/13 as calculated to reflect the impact on the local council tax payer shows an underspend of

£8.1m. Much of this is attributable to pro-active cost reduction initiatives across the Force. This level of underspend is similar to that which was anticipated at the time of setting the Revenue Budget for 2013/14, and will be utilised on a planned basis to ease the burden of grant reductions over the medium term. Note 27 to these accounts explains how the final accounts reconcile to the management accounts used by the Commissioner and the Chief Constable during the course of the year to monitor spending. It also provides additional information to readers of the accounts on where expenditure is incurred and on what.

This chart below shows the proportion of total expenditure allocated to functions of the service. The Glossary at the end of accounts explains the categories of costs in the table below.



## Summary

As described earlier, the outlook for police grant funding for Kent in the medium term remains challenging with the likelihood of further savings required from 2015/16 on top of those delivered or required up to 2014/15. However, a combination of clear priorities, good planning, effective systems of internal control and budget monitoring, and a coherent medium term plan, leave the Commissioner for Kent and the Chief Constable in a relatively robust position to address the present challenges. The favourable outturn for 2012/13 has contributed to this position. However, with the likelihood of further savings in the region of another £20m means that there are even more challenging times ahead.

Looking ahead the Commissioner remains absolutely and robustly focused on the delivery of her Police and Crime Plan, which include her various manifesto promises. At the core of that is her determination to put victims at the heart of the system and to protect local visible neighbourhood policing as far as possible.